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Infoline

- Cash receipts from farming operations fall for the first time in 19 years.
- Public and private sector investment forecast to rise 5.1% in 2003.
- Rising gasoline and cigarette prices drive up the inflation rate.

Prices

- British Columbia's all items consumer price index (CPI) increased 3.1% from January 2002 to January 2003. Rising gasoline (+25.1%), and cigarette (+29.6%) prices were big factors in the gain. Tuition fees were also higher (+21.1%) in January compared to the same period last year. Prices for most types of goods and services were up. The cost of food and shelter inched up 1.4% and transportation costs climbed 7.7%.

Canada's inflation rate was 4.5% in January. Energy (+15.3%) and alcoholic beverage and tobacco products (+17.6%) were key factors in the jump.

Source: Statistics Canada

Private and Public Investment

- BC private and public sector establishments plan to increase capital spending 5.1% in 2003. Planned spending on machinery and equipment in BC is expected to jump 4.6%. Establishments also anticipate higher capital spending in non-residential construction (+5.4%). Residential investment is predicted to grow (+8.6%) for the third straight year, as BC's housing market stays strong.

After increasing 11.4% in 2002, public sector investment is expected to rise 3.3% in 2003. Although provincial spending is forecast to fall (-7.4%), federal (+13.7%) and local (+4.3%) governments anticipate an increase in spending. After an 8.7% drop last year, private investment is expected to rise 5.6% this year as most industries anticipate an increase in their spending.

Source: Statistics Canada

The Economy

- Exports of BC products rose 3.5% (seasonally adjusted) in December, following three months of low or negative growth. After

two months of decline, exports to the US were up 4.1%, mainly due to a 12.7% increase in energy exports and a rebound in forest product (+3.0%) exports. Agriculture and fish (+6.4%) products also rose. Exports to other countries advanced 2.4%, with increases in most commodity groups. However, energy exports were down 8.8%.

Source: BC Stats

- Total wages, salaries and benefits earned by BC workers rose 2.1% during 2002, the smallest gain since 1998. Nationally, labour income was up 4.6%, with the largest jump in Alberta (+7.2%). PEI (+6.3%) and Newfoundland (+6.9%) also saw large gains. The increase in British Columbia's labour income was the smallest in the country.

Source: Statistics Canada

- The number of British Columbians collecting regular employment insurance benefits fell 2.6% (seasonally adjusted) in December. Across the country, the number of beneficiaries dropped 0.5%, with decreases in every province except New Brunswick (+1.4%), Quebec (+0.1%) and Ontario (+1.4%). Saskatchewan (-7.7%) and Alberta (-6.5%) experienced the largest declines.

Source: Statistics Canada

Agriculture

- For the first time since 1983, farm cash receipts dropped (-1.6%) in BC in 2002. Total livestock receipts fell 2.8%, mainly due to lower cattle (-10.5%) and turkey (-4.5%) sales. Crop receipts rose 2.5%, led by potatoes (+23.7%), strawberries (+24.1%) and other berries & grapes (+27.3%).

Source: Statistics Canada

Science and technology

- Total provincial government expenditures on science activities fell 32% from \$346 million in 2000/2001 to \$235 million in

Did you know...

Taxfilers under 65 cashed in \$1 for every \$5 contributed to RRSPs in the 1990s.

2001/2002. The figures for 2000/2001 had been boosted by a one-time \$110 million payment to the Michael Smith Foundation for Health Research. Excluding this amount, expenditure slipped 0.4%.

Source: SC Catalogue 88-001-XIB

Young Graduates

• **The number of young Canadian college graduates climbed 23% between 1990 and 1995.** The number of male graduates jumped 40%, to 11,900. Although less of an increase (+11%) was seen in females, more females (14,100) than males graduated from college programs. Business and commerce programs produced the most college graduates in 1995. Among 1995 graduates, 88.0% were employed in 1997 and 93.5% held a job in 2000. Most (85.1%) of the graduates with jobs in 2000 had full-time positions, while 8.3% had part-time jobs.

Source: SC Catalogue 81-959-MIE

• **There were 56,900 young university graduates in 1995, up 16% from 1990.** The number of female graduates rose 24%, whereas 6% more young males graduated. The most popular field of study was social sciences for both males and females, with a total of 14,900 graduates in 1995. Amongst all graduates, 83.3% were employed in 1997 and 89.9% were employed in 2000. The majority of these positions (82.3%) in 2000 were full-time. Graduates of engineering and applied sciences had the highest employment rate (95.7%) and education (83.8%) had the lowest.

Source: SC Catalogue 81-959-MIE

• **The average size of student loans of 1995 graduates was \$8,300 for college students and \$11,800 for their university student counterparts at the time of graduation.** This was a 57% increase for college graduates and a 34% increase for university graduates compared to 1990 levels. However, five years after graduation both university and college students had, on average, paid back 55% of their original loan.

Source: SC Catalogue 81-959-MIE

Retirement

• **From 1991 to 1999, the number of taxfilers who contributed to registered retirement savings plans (RRSPs) increased from**

24% to 29% in Canada. Most of contributors (60%) were between the ages of 35 and 54, but those aged 55 to 64 made the largest per capita contributions. In 1999, 71% of Canadian families had some form of pension assets with a median value of \$50,000.

Source: SC Catalogue 74-507-XPE

The Nation

• **Canada's economy grew 0.4% (seasonally adjusted) in the fourth quarter of 2002 after a 0.9% increase in the third quarter.** The increase was due to strong domestic demand for goods and services. Final domestic demand rose 0.9% largely because of a 1.1% rise in consumer spending. Expenditure on durable goods saw a 2.1% increase. Business investment in plant and equipment fell 0.4%, as investment in non-residential structures dropped 0.8% and investment in machinery and equipment slipped (-0.1%).

Following three months of growth, exports dropped 2.1%. Goods (-2.6%) were the driving force behind the fall, as automotive exports (-17.4%) were hit hard. Forest products (+2.1%) saw an increase due in part to a strong housing market in the US.

Source: Statistics Canada

• **Real GDP increased 3.4% last year, up from 1.5% in 2001.** Consumer spending grew 2.9%, as expenditures on durables climbed 6.4%. Final domestic demand rose 2.6%. Investment in residential construction jumped (+16.0%).

Source: Statistics Canada

• **Economic activity remained fairly flat in December (+0.1%) in Canada.** Goods producing industries were up 0.1%. Mining and oil and gas extraction saw the largest increase (+1.8%) followed by agriculture, forestry, fishing and hunting (+0.7%). Manufacturing (-0.3%) and utilities (-0.1%) saw declines. On the service side, economic activity stalled in December (0.0%). Retail trade posted the biggest gain, with an increase of only 0.6%. Arts, entertainment and recreation put in the worst performance (-1.0%).

Source: Statistics Canada

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Canada Courts the European Union for Freer Trade

With a population of 377 million as of January 1, 2001,¹ the group of 15 nations that comprise the European Union (EU) is the world's largest single market. With this in mind, it is not surprising that Canada has been interested for quite some time in strengthening trade with the region. Since the early 1970s when Prime Minister Trudeau sought to diversify Canada's trade to lessen the dependence on the United States, Canada has been courting Europe for stronger trade ties.

Ironically, the signing of the Canada-United States Free Trade deal and later the North American Free Trade Agreement resulted in Canada becoming even more closely tied to the United States while the proportion of Canada's trade with the EU has declined from 8.7% in 1990 to 4.7% in 2001. In December 2002, Canada and the EU signed a declaration stating a desire to move toward closer trade and investment ties. This may be a sign that the EU is warming up to the idea of freer trade with Canada after decades of indifference. However, the idea of a free trade agreement between Canada and the EU is probably premature, to say the least. Lingering disputes regarding agricultural products could prove to be insurmountable hurdles, at least in the short term. The EU's ban of Canadian hormone-treated beef and European agricultural subsidies and tariffs could prevent a free trade agreement from coming together. Nevertheless, Canada continues to seek out greater trade opportunities in Europe as demonstrated by the scheduling of a Team Canada trade mission to the Netherlands, the United Kingdom and Italy in late March 2003.

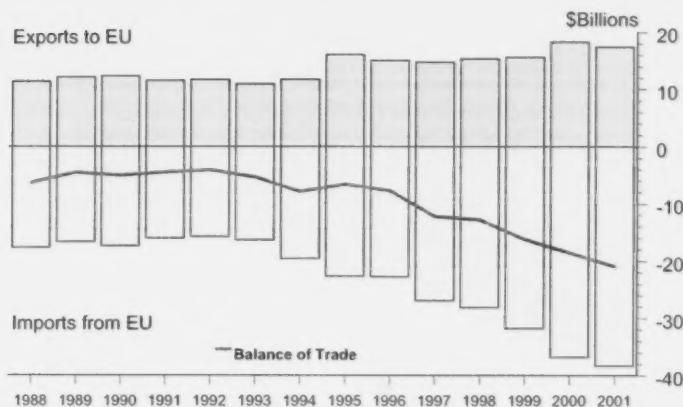
The current trade relationship between Canada and the EU is tilted significantly in favour of the Europeans as Canada has a commodity trade deficit with all but the Benelux countries (Belgium, Netherlands, Luxembourg) and Greece. The overall trade deficit with the EU approached \$21 billion in 2001. Canada's exports to the EU amounted to \$17.4 billion in 2001 compared to \$38.3 billion of goods imported from the region. The trade deficit has increased sharply over the last five years, from \$7.7 billion in 1996. The United Kingdom (UK) was the source of almost a third of the trade deficit with the EU in 2001. Although the UK was the top destination in the EU for Canadian exports with \$4.7 billion, it was also the largest source of imports at \$11.6 billion.

The European Union is comprised of the United Kingdom, Ireland, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Luxembourg, the Netherlands, Portugal, Spain and Sweden

Canada has a commodity trade deficit with all countries in the EU with the exception of the Benelux countries and Greece

¹ Source: Department of Foreign Affairs and International Trade.

Canada has a trade deficit with the European Union
both in terms of goods...

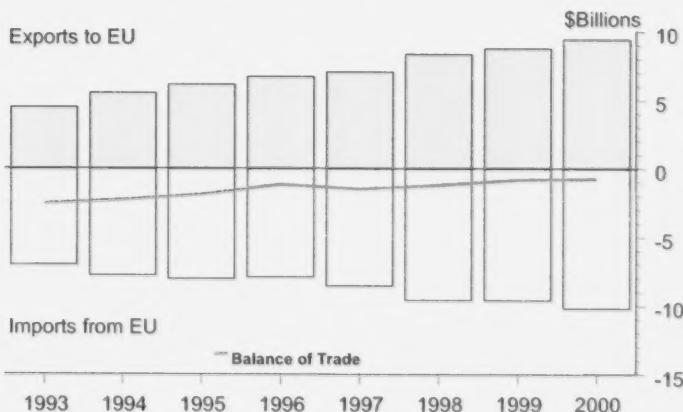


Canada's deficit with the EU in commodity trade has increased sharply in the last five years

Canada also has a deficit with the EU in terms of trade in services, although unlike the commodity trade deficit, the services deficit has been diminishing in recent years. Canada has a significant surplus in trade in services with Ireland, Germany and Sweden, but a substantial deficit with the United Kingdom, Greece and Italy.

Not only is the EU important to Canada in terms of two-way trade, but also with regard to foreign direct investment. After the United States, the EU has the most foreign direct investment in Canada, at just over \$76 billion in 2001, or 23.5% of all foreign direct investment in Canada. At the same time, Canada has about the same amount invested in EU countries. The UK is by far the most significant country

...as well as services



Canada also has a deficit in trade in services with the EU, although the gap has been shrinking

for Canadian investment, with about half of Canada's direct investment abroad located there. The UK is also a major investor in Canada with almost a third of all EU foreign direct investment in this country. Investment from other EU countries has ramped up significantly over the last few years almost doubling between 1998 and 2000.

Foreign Direct Investment (Canada and EU)

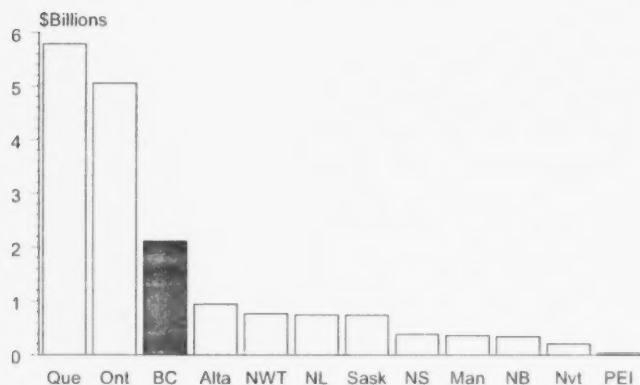
\$Millions	UK FDI in Canada	Other EU FDI in Canada	Canadian FDI in UK	Canadian FDI in other EU
1992	16,799	15,056	12,271	9,071
1993	15,872	15,732	12,907	11,478
1994	14,693	16,824	15,038	15,620
1995	14,097	21,778	16,412	18,106
1996	14,292	24,406	17,825	19,192
1997	15,748	25,508	22,722	22,416
1998	17,042	31,126	24,956	29,149
1999	14,894	35,902	24,883	28,470
2000	21,970	60,787	35,427	36,773
2001 (p)	24,713	51,551	38,305	38,197

Almost a quarter of all foreign direct investment in Canada in 2001 was from the European Union (\$76 billion)

Source: Statistics Canada, *Canada's International Investment Position, 2001, cat. 67-202-XPB*

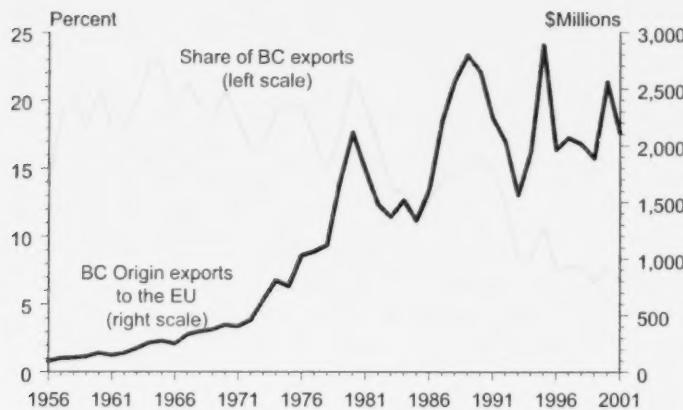
While the EU will likely never rival the United States in importance as a trade and investment partner for Canada, it is clear from the figures above that it is a significant economic partner. However, the impact of trade with the EU varies by province. In 2001, Quebec, Ontario and BC were responsible for almost three-quarters of all Canadian exports to the EU. British Columbia ranked third with \$2.1 billion in exports, or 12% of the Canadian total.

British Columbia ranked third in Canada in value of exports to the European Union 2001



British Columbia shipped about 12% of total Canadian exports to the EU in 2001

The share of BC Exports to the European Union has been declining for two decades



The European Union's share of total BC origin exports has declined from around 20% in 1981 to only 7% in 2001

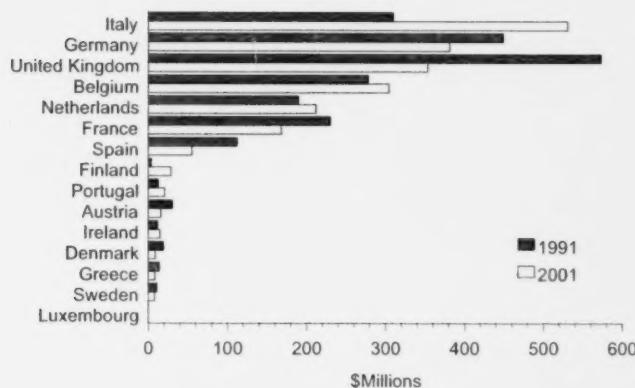
For British Columbia, the importance of the EU as a destination for exports has diminished over the last couple of decades. Peaking at 23% of total BC exports in the mid-sixties, the share of BC origin commodity exports shipped to the EU dropped to under 7% in 2001. This is likely in part a direct result of free trade with the United States, combined with a favourable exchange rate for exporters shipping to the US. The share of BC exports headed to the US has increased from about 45% in the early eighties to 70% in 2001. In addition to the US, the EU lost a portion of its share of BC exports to Asian destinations, although in recent years the financial crises in Asia have resulted in declining exports to those countries. Despite the falling shares to Asia, the EU's share continued to drop as well. Part of the reason for this may be the emergence of other competitors for BC products within Europe, such as Russia for lumber products.

The types of goods shipped to the EU from BC in 2001 were mainly resource-based, with three-quarters of total BC exports being comprised of just three commodities. Almost half (49%) of British Columbia's commodity exports to the EU were pulp. Coal (17%) and softwood lumber (9%) made up another quarter of total exports.

Three-quarters of BC origin exports to the EU were comprised of pulp, coal or softwood lumber

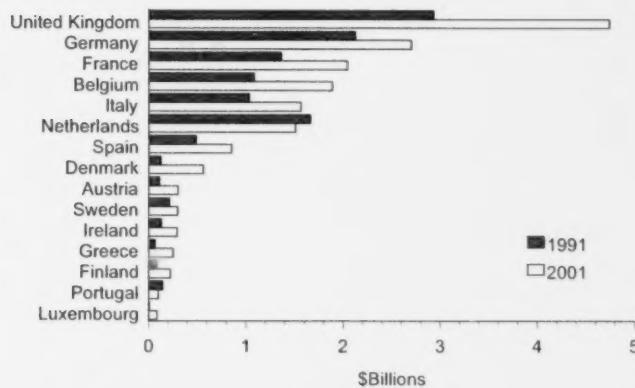
For Canada as a whole, exports to the EU were far more diversified. Aircraft (11%) were the top export in 2001, followed by pulp (10%) and diamonds (4%). The aircraft originated in Quebec (80%) and Ontario (20%) and were the top exports for both those provinces. The diamonds were exclusively from the North West Territories and comprised almost 100% of that region's exports to the EU. British Columbia was the origin of 60% of Canada's total pulp shipments to the EU. Quebec (14%) and Alberta (12%) also had significant pulp shipments.

Italy has become the top destination in the European Union for British Columbia origin exports...



Italy has surpassed both the United Kingdom and Germany to become the top destination for BC origin exports

...while for total Canadian exports, the United Kingdom remains the leading destination



The United Kingdom is by far the most significant destination for Canadian exports overall

Italy has surpassed the UK and Germany as the top destination for BC origin exports, but for Canada as a whole, the UK is by far the most significant destination and Germany ranks second. Italy's growing importance to BC exporters gives the next Team Canada trade mission even more significance for British Columbia.

BC has already demonstrated that the EU is an important trade partner with the share of BC exports destined for the EU well above the Canadian average. If Canada can negotiate better trade ties with the EU it could be significantly beneficial for the province. While it is unlikely that a free trade deal will be struck any time soon, any movement toward freer trade should help Canadian exporters looking to diversify their markets.



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BC at a glance . . .

POPULATION (thousands)		Oct 1/02	% change on one year ago
BC		4,151.0	0.9
Canada		31,485.6	0.9
GDP and INCOME		% change on one year ago	
(BC - at market prices)		2001 Revised	
Gross Domestic Product (GDP) (\$ millions)		130,859	1.2
GDP (\$ 1997 millions)		123,912	-0.2
GDP (\$ 1997 per Capita)		30,252	-1.1
Personal Disposable Income (\$ 1997 per Capita)		19,513	1.2
TRADE (\$ millions, seasonally adjusted)		% change on prev. month	
Manufacturing Shipments - Dec		2,884	0.5
Merchandise Exports - Dec		2,446	3.5
Retail Sales - Dec		3,380	-0.9
CONSUMER PRICE INDEX		12-month avg	
(all items - 1992=100)		Jan '03	% change
BC		119.0	2.5
Canada		121.4	2.5
LABOUR FORCE (thousands)		% change on prev. month	
(seasonally adjusted)		Jan '03	
Labour Force - BC		2,167	-0.4
Employed - BC		1,990	-0.2
Unemployed - BC		177	-2.9
		Dec '02	
Unemployment Rate - BC (percent)		8.2	8.4
Unemployment Rate - Canada (percent)		7.4	7.5
INTEREST RATES (percent)		Feb 26/03	Feb 27/02
Prime Business Rate		4.50	3.75
Conventional Mortgages - 1 year		4.90	4.55
- 5 year		6.60	6.85
US/CANADA EXCHANGE RATE		Feb 26/03	Feb 27/02
(avg. noon spot rate) Cdn \$		1.4935	1.6083
US \$ (reciprocal of the closing rate)		0.6689	0.6213
AVERAGE WEEKLY WAGE RATE		% change on one year ago	
(industrial aggregate - dollars)		Jan '03	
BC		679.52	3.6
Canada		658.15	2.2

SOURCES:

Population, Gross Domestic Product, Trade, } Statistics
 Prices, Labour Force, Wage Rate } Canada
 Interest Rates, Exchange Rates: Bank of Canada Weekly Financial Statistics
 For latest Weekly Financial Statistics see www.bankofcanada.ca

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- Exports, December 2002

Next week

- Business Indicators, February 2003
- Current Statistics, February 2003
- Tourism Sector Monitor, February 2003